FIDC

Finance Industry Development Council

(A body incorporated as a Self Regulatory Organisation for Registered NBFCs)

101/103, Sunflower, 1st Floor, Rajawadi Road No.2, Ghatkopar (East), Mumbai – 400 077

Tel: 02221027324/9820035553; E-mail:maheshthakkar45@yahoo.in; website:www.fidcindia.org

03 09 16

Dr. Kshatrapati Shivaji
Chairman & Managing Director
SIDBI
SME Development Centre
G Block, Bandra Kurla Complex
Bandra East
Mumbai 400 051

Sub: **Refinancing of NBFCs by MUDRA – Request to Amend the Eligibility Criteria**

Respected Sir,

We sincerely thank you for sparing your valuable time and giving a patient hearing to the concerns and suggestions made by us during our meeting held in your office yesterday, 1st September 2016.

Finance Industry Development Council (FIDC) is a Self-Regulatory Organization (SRO) cum Representative Body of the NBFCs, registered with the Reserve Bank of India and engaged in Asset Financing. FIDC was formed 12 years ago, and is the recognized face of NBFCs, specially, those engaged in asset financing. We have been engaged in regular interactions both with Reserve Bank of India and Govt. of India, which include pre-budget meetings and also important policy related meetings with RBI. Almost all the leading NBFCs and a large number of small and medium sized NBFCs are our members.

NBFC Sector

- As per the Financial Stability Report (FSR) dated June 2016:
  - Asset quality of NBFCs improved during the year 2015-16 and is better than the banks
  - The performance of the NBFC sector in terms of RoE and RoA is much better as compared to that of banks
  - NBFCs can support the drive towards promoting inclusive growth by catering to diverse financial needs, specially of MSMEs and individuals.
- NBFCs have mastered the art of lending to the “unbanked” segment thereby furthering the Government’s agenda on financial inclusion for the last seventy years now.
- NBFCs have been the pioneers in asset backed retail lending thereby playing an instrumental role in the development of important sectors like transport , infrastructure and SMEs/ MSMEs
- Recent studies done by credit rating agencies show that few of the leading NBFCs have overtaken some of the scheduled commercial banks in terms of their balance sheet size
- In spite of the fact that bank funding is one of the major sources of funds for NBFCs, none of the NBFCs have defaulted in meeting their liabilities towards the banks in the recent past
- NBFCs have a regulation history of more than 19 years and all the key parameters of our activities are well regulated, almost at par with banks

- 100% FDI is permitted in the NBFC sector which has projected this as an important attraction for FDI investment
- The report of the RBI Committee on Mid Term Path on Financial Inclusion has recommended building of strong linkages between banks and NBFCs

Refinancing by MUDRA as a Substitute to Public Deposits held by Small & Medium NBFCs

Current Status

MUDRA was setup with the prime objective of refinancing banks, NBFCs and MFIs for on-lending to non corporate small businesses. For this purpose three categories of loans have been prescribed – Shishu (upto Rs.1.0 lakh), Tarun (Rs.1.0-5.0 lakhs) and Kishore (Rs. 5.0-10.0 lakhs). While the "Shishu" category is primarily the forte of MFIs, it is the "Tarun" and "Kishore" categories which are a perfect fit for NBFCs. However, till date MUDRA's exposure to NBFC sector has been negligible. This has been primarily due to the fact that the eligibility norms for NBFCs adopted by MUDRA, are not favorable, specially, for small and medium NBFCs.

Small and Medium NBFCs- Role in Promoting Financial Inclusion and Challenges in Raising Funds

In terms of numbers, more than 80% (out of a total of about 11000) of the NBFCs registered with RBI are small and medium sized. They have been doing an excellent job of furthering the Govt's agenda on financial inclusion by providing need based credit to the "unbanked" segment of the society. It is a well known fact that NBFCs take the first credit call on an "unbanked" borrower and thus make him part of the mainstream financial system. . These are family run companies who have built a strong niche for themselves in their limited area of operation. On the other hand, these small and medium sized NBFCs have been complying to the prescribed RBI norms, thereby posing a low risk to the system (a fact that was recognized by the Usha Thorat Committee). One of the biggest challenges before these companies is to raise funds at competitive costs

There are about 200 small and medium sized NBFCs which are authorized by RBI to accept public deposits and the total quantum of public deposits held by these companies would be less than 1,000 cr. Over the years these companies have also built a strong trust among their close friends and relatives, which enables them to readily raise funds through public deposits at competitive rates. It has been a stated policy of RBI that acceptance of deposits shall be the forte of banks in the long run. As such, regulations for acceptance of deposits by NBFCs have been made more stringent over the years.

As per the Revised Regulatory Framework issued by RBI in 2014, one of the primary regulatory requirements for accepting public deposits is to obtain a minimum investment grade credit rating. However, all the credit rating agencies accredited by RBI follow the same rating scale and model which does not distinguish companies on the basis of the size of their balance sheet and operations.

As such, a small NBFC with an asset base of less than Rs 5 cr is treated at par with a large NBFC having asset base of Rs 500 cr and above. Under these circumstances, obtaining the minimum investment grade credit rating is almost impossible for small and medium NBFCs, irrespective of their financial performance. As a result, these companies are being forced to move out of the deposit acceptance arena.

In such a scenario, there is a crying need to provide these companies with an alternative source of funding. Creating a refinance mechanism for NBFCs has been a long standing demand of the sector which was also recommended by the Parliamentary Standing Committee on Finance on the 45th report on dated June 2003.

Suggestions

Under these circumstances we feel that the following eligibility norms for NBFCs for availing refinance from MUDRA should be changed so as to make them favorable:

- *All NBFCs registered with RBI should be eligible, irrespective of their size, as against the prevailing norm of minimum NOF of Rs 15 cr.*
- *The prevailing norm of obtaining a minimum investment grade credit rating should be done away with.*

This shall enable small and medium sized NBFCs to shift from acceptance of public deposits and instead avail refinance from MUDRA.

This shall be a win win situation for all the stakeholders:

- *NBFCs would move out of deposit acceptance, which is in line with RBIs policy.*
- *These companies shall not only survive but also grow and continue the excellent work being done in catering to the unbanked segment, including small non corporate businesses*
- *The objectives for which MUDRA was setup will also be achieved as almost 100% of the borrowers of these companies are non-corporate small businesses.*

We hope that the above said issues and our suggestion thereon shall be considered favorably. We shall be obliged to provide any other information/ clarification required in this regard.

Assuring you our full cooperation always and thanking you in anticipation

With Warm Regards

Raman Aggarwal
Chairman
Mb9810016667